

**INTEGRATED LAW AND JUSTICE AGENCY
FOR ORANGE COUNTY**

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2007

(With Independent Auditors' Reports Thereon)

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2007

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Board of Directors
Integrated Law and Justice Agency for Orange County
Newport Beach, California

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the governmental activities and each major fund of the Integrated Law and Justice Agency for Orange County (the "Agency") as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major of the Agency at June 30, 2007, and the respective changes in financial position of the Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *management's discussion and analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Integrated Law and Justice Agency for Orange County's basic financial statements. The *required supplementary information* identified in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The *required supplemental information* has been subject to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors
Integrated Law and Justice Agency for Orange County
Agency for Orange County

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2007 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman Melson P.C.

Irvine, California
December 20, 2007

GOVERNMENT-WIDE FINANCIAL STATEMENTS

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

Statement of Net Assets

June 30, 2007

Governmental Activities

Assets:

Due from other governments	\$ 436,485
Prepaid items	184,359
Capital assets, net of accumulated depreciation (note 3)	<u>2,892,444</u>
Total assets	<u>\$ 3,513,288</u>

Liabilities:

Accounts payable	\$ <u>436,485</u>
Total liabilities	<u>436,485</u>

Net assets:

Invested in capital assets	2,892,444
Unrestricted	<u>184,359</u>
Total net assets	<u>\$ 3,076,803</u>

See accompanying notes to the basic financial statements.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

Statement of Activities

Year Ended June 30, 2007

Function/Programs	Expenses	Program Revenues			Net Change in Governmental Activities 2007
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Public Safety	<u>\$ 81,002</u>	<u>8,200</u>	<u>1,432,334</u>	<u>1,717,271</u>	<u>3,076,803</u>
Total governmental activities	<u>\$ 81,002</u>	<u>8,200</u>	<u>1,432,334</u>	<u>1,717,271</u>	<u>3,076,803</u>
Changes in net assets					3,076,803
Net assets at beginning of year					<u>-</u>
Net assets at end of year					<u>\$ 3,076,803</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY
Governmental Funds

Balance Sheet

June 30, 2007

	<u>Operating Fund</u>	<u>Grants Fund</u>	<u>Totals</u>
<u>Assets</u>			
Due from other governments	\$ -	436,485	436,485
Total assets	<u>\$ -</u>	<u>436,485</u>	<u>436,485</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Cash overdraft payable	\$ -	436,485	436,485
Total liabilities	<u>-</u>	<u>436,485</u>	<u>436,485</u>
Fund balances:			
Unreserved - undesignated, reported in:			
Special revenue funds	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>436,485</u>	<u>436,485</u>

See accompanying notes to the basic financial statements.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

June 30, 2007

Fund balances of governmental funds	\$ -
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets have not been included as financial resources in governmental fund activity:	
Capital assets	2,892,444
Certain items were recorded as expenditures in the fund statements under the current financial resources measurement focus, but are reported as assets in the Statement of Net Assets under the economic resources measurement focus.	
Prepaid items	<u>184,359</u>
Net assets of governmental activities	<u>\$ 3,076,803</u>

See accompanying notes to the basic financial statements.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2007

	Operating Fund	Grants Fund	Totals
Revenues:			
Intergovernmental	\$ -	1,432,334	1,432,334
Contributions from member agencies	<u>8,200</u>	<u>-</u>	<u>8,200</u>
Total revenues	<u>8,200</u>	<u>1,432,334</u>	<u>1,440,534</u>
Expenditures:			
Insurance	8,200	-	8,200
Professional services	-	1,125,165	1,125,165
Consulting	-	97,500	97,500
Equipment	-	208,960	208,960
Travel and meetings	<u>-</u>	<u>709</u>	<u>709</u>
Total expenditures	<u>8,200</u>	<u>1,432,334</u>	<u>1,440,534</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See accompanying notes to the basic financial statements.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY
Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year Ended June 30, 2007

Changes in fund balances of governmental funds	\$ -
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital asset additions	2,892,444
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Certain items were recorded as expenditures in the fund statements under the current financial resources measurement focus, but are reported as assets in the Statement of Net Assets under the economic resources measurement focus.

Prepaid items	<u>184,359</u>
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Changes in net assets of governmental activities	<u>\$ 3,076,803</u>
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See accompanying notes to the basic financial statements.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(1) Summary of Significant Accounting Policies

The accounting policies of Integrated Law and Justice Agency for Orange County (hereinafter referred to as the "Agency") conform to accounting principles generally accepted in the United States of America for local governmental units. The following is a summary of the significant policies.

(a) Description of Reporting Entity

The Agency currently operates as a joint venture consisting of the following entities, collectively referred to as "Member Agencies:"

Newport Beach	Fullerton	Placentia
Anaheim	Garden Grove	Santa Ana
Brea	Irvine	Seal Beach
Buena Park	Huntington Beach	Superior Court of CA
Costa Mesa	La Habra	County of Orange
Cypress	La Palma	Tustin
Fountain Valley	Laguna Beach	Westminster
Los Alamitos	Orange	

The purpose of the Agency is to facilitate the integration and sharing of criminal justice information and data among the member agencies. The Agency is intended to provide criminal and law enforcement officials who have the need and right to know, with comprehensive, timely, and accurate information about a criminal suspect or offender, including identity, criminal history, and current justice status.

(b) Measurement Focus and Basis of Accounting

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Measurement Focus and Basis of Accounting, (Continued)

Government-wide Financial Statements

Government-wide financial statements display information about the Agency as a whole. All activities of the Agency are classified as governmental activities. Government-wide financial statements are presented using the *economic resources measurement* focus and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized assets in the government-wide financial statements, rather than reported as expenditure.

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about governmental major funds individually.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(1) **Summary of Significant Accounting Policies, (Continued)**

(b) Measurement Focus and Basis of Accounting, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency generally considers revenues collected within sixty days after the fiscal year-end to be available.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Fund Classification

The accounting records of the Agency are organized on the basis of funds. The following funds have been classified as major governmental funds:

Operating Fund

The operating fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenditures and other costs which are not paid through other funds.

Grants Fund

The Grants Fund is used to account for financial resources received from grantor agencies, as well as financial resources segregated for major capital acquisitions.

(d) Cash and Investments

Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

(e) Due from Other Governments

Amounts shown as due from other governments represent billings to other parties for services rendered during the year which had not been collected as of the balance sheet date.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(f) Capital Assets

Capital assets are recorded at historical cost at the time of purchase. Assets acquired from gifts of contributions are recorded at fair market value on the date received. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of 3 years or more. The Agency has adopted GASB No. 51, *Accounting and Financial Reporting for Intangible Assets*. Computer software is a common type of intangible asset that is often internally generated. Internally generated computer software includes software developed in-house by the government's personnel or by a third-party contractor on behalf of the government, or commercially available software that is modified using more than minimal incremental effort before being put into operation. Outlays incurred related to an internally generated intangible asset that is identifiable are capitalized only upon the occurrence of all of the following:

- a) Determination that an objective for the project is to create a specific internally generated intangible asset.
- b) Determination of the nature of the service capacity that is expected to be provided by the asset upon its completion.
- c) Demonstration of the technical or technological feasibility for completing the project so that the asset will provide its expected service capacity.
- d) Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Outlays related to the creation of an internally generated intangible asset incurred prior to meeting these criteria are expensed as incurred.

Capital assets used in operations are depreciated in the government-wide financial statements. Depreciation of such assets is computed using the straight-line method over the estimated useful lives noted below and charged to operations:

Computer hardware equipment	3 years
Software	3 years

(h) Charges to Other Agencies

Revenues received from other agencies represent amounts billed to other public service agencies contracting with the Agency for law enforcement support services.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments

The Agency's cash and investments are maintained in an investment pool managed by the City of Newport Beach. The Agency is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Newport Beach. The Agency has not adopted an investment policy separate from that of the City of Newport Beach. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Newport Beach manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Newport Beach is provided by disclosures in the notes to the basic financial statements of the City of Newport Beach's Comprehensive Annual Financial Report that shows the distribution of the City's investments by maturity.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Minimum ratings required by (where applicable) the California Government Code and the City of Newport Beach's Investment Policy and the actual ratings as of year-end for each investment type are provided by disclosures in the notes to the basic financial statements of the City of Newport Beach's Comprehensive Annual Financial Report.

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(2) Cash and Investments, (Continued)

Concentration of Credit Risk

Investments in any one issuer (other than US. Treasury securities, mutual funds and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund or for nonmajor funds in the aggregate) are disclosed in the notes to the basic financial statements of the City of Newport Beach's Comprehensive Annual Financial Report.

Custodial Credit Risk

The Agency does not have any significant certificates of deposit or demand accounts that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Agency does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

(3) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2007 is as follows:

Governmental Activities:

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance at June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2007</u>
Capital assets being depreciated:				
Equipment and software	\$ -	2,892,444	-	2,892,444
Total capital assets being depreciated	-	2,892,444	-	2,892,444
Less accumulated depreciation for:				
Equipment and software	-	-	-	-
Total accumulated depreciation	-	-	-	-
Total capital assets being depreciated, net	-	2,892,444	-	2,892,444
Governmental activities capital assets, net	\$ -	2,892,444	-	2,892,444

It is the policy of the agency to take no depreciation in the first full year of service for capital assets and a full year of depreciation in the year of deletion.

REQUIRED SUPPLEMENTARY INFORMATION

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY
Operating Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Contributions from member agencies	<u>\$ -</u>	<u>-</u>	<u>8,200</u>	<u>8,200</u>
Total revenues	<u>-</u>	<u>-</u>	<u>8,200</u>	<u>8,200</u>
Expenditures:				
Insurance	<u>-</u>	<u>-</u>	<u>8,200</u>	<u>(8,200)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>8,200</u>	<u>(8,200)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY
Grants Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ <u>3,001,825</u>	<u>3,001,825</u>	<u>1,432,334</u>	<u>(1,569,491)</u>
Total revenues	<u>3,001,825</u>	<u>3,001,825</u>	<u>1,432,334</u>	<u>(1,569,491)</u>
Expenditures:				
Professional services	2,498,355	2,498,355	1,125,165	1,373,190
Consulting	208,875	208,875	97,500	111,375
Equipment	359,756	359,756	208,960	150,796
Travel and meetings	<u>1,519</u>	<u>1,519</u>	<u>709</u>	<u>810</u>
Total expenditures	<u>3,068,505</u>	<u>3,068,505</u>	<u>1,432,334</u>	<u>1,636,171</u>
Excess (deficiency) of revenues over (under) expenditures	(66,680)	(66,680)	-	66,680
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	\$ <u>(66,680)</u>	<u>(66,680)</u>	<u>-</u>	<u>66,680</u>

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2007

(1) **Budgetary Reporting**

The Agency adopted an annual budget prepared on the modified accrual basis for the Operating Fund and Grants Fund.

At June 30, 2007, expenditures exceeded appropriations in the following:

	<u>Amount of Excess</u>
Operating Fund	
Insurance	\$(8,200)